



## **Ofgem Consultation – Smart billing for a smarter market**

### **Response from E.ON**

#### **General Comments**

We are supportive of Ofgem's smarter markets initiative to ensure the broader regulatory issues and opportunities that smart meters will bring are tackled in a co-ordinated and strategic way. Delivering the benefits of reformed customer switching processes, removing the complexity within the current electricity settlement arrangements and unlocking the opportunity for improved industry processes are all activities that will improve the market for both Suppliers and consumers.

We are concerned that proposals for increased regulation are not introduced too early without due consideration of their justification and their impact upon the market. Without sufficient evidence for their need or an assessment of their implications there is a risk that it will restrict innovation and ultimately lead to outcomes that are detrimental to customers.

We are pleased to see that many of the original suggestions for potential new regulations from the earlier consultations in 2014 are no longer considered necessary.

We share the views of Ofgem expressed in this consultation that customers should expect better standards of billing from energy Suppliers as a result of the deployment of smart meters. It is something that we have strived to deliver since we began installing smart meters for our customers. Our aim has been to eliminate estimated bills and in the vast majority of cases this has been the case. However we have found that technical issues do prevent this objective of being achieved in 100% of cases. Issues with Wide Area Network (WAN) and Home Area Network (HAN) communication can be temperamental and difficult to resolve.

It is welcome that Ofgem recognises these challenges and proposes a set of measures that will provide clarity to all regarding Suppliers performance in this area. This should demonstrate which Suppliers are making the greatest effort in ensuring a high standard of service for their customers and provide the right incentives.

Although we understand the logic behind the proposals regarding back billing of customers we fear that the proposals are being introduced too quickly and without consideration of the consequences that they may have for the market. In particular we are concerned with:

#### **Back billing period**

6 months is not sufficient time for many issues to be identified and resolved. Although we recognise that problems will be identified more quickly with a smart meter it does not improve the speed with which all issues can and will be resolved.

#### **Implementation date**

It is welcome that Ofgem recognise that a period of time is needed for Suppliers to prepare for the implementation of these new obligations. However the implementation of the Data and Communication Company (DCC) and the services that it provides to support smart meters will introduce new systems and business processes for Suppliers to manage.



The implementation of these new regulations should therefore be linked to the DCC go live date. As there is currently considerable uncertainty as to the scope of services that will be delivered by the DCC at the outset we think it is better to extend the implementation date to 24 months after the DCC provides live operations (by this we mean a sufficient set of functionality that allows delivery of services for all customers, e.g. Pay As You Go)..

This would complement the proposed licence obligation suggested recently by DECC to ensure that all Suppliers are deploying and using the DCC service 12 months after they are available. Implementing this obligation around back billing 24 months after the DCC goes live would provide at least 12 months for even the slowest Suppliers to be prepared for these new obligations.

#### Meter types

We believe that these obligations should only apply to enrolled smart meters actively supported by the DCC. Limiting the requirement in this way would allow the obligation to be extended to microbusiness customers more easily.

A key concern that Suppliers will face in implementing these regulations for microbusiness customers will be ensuring appropriate working communications are in place with meters following a Change of Supplier (CoS). During this process the new Supplier may have to enter into new contractual arrangements with a Smart Metering System Operator (SMSO) or Automated Meter Reading (AMR) provider and these may take time to finalise and implement any associated business process and system changes. These issues do not apply in the case of the DCC where its services are available to all Suppliers.

In the future we do not believe that there will be many microbusiness customers who do not have smart meters linked to the DCC communication network so the impact to customers from the limitation should be small. However the risks to Suppliers of complying with the proposed regulations for non DCC customers might be significant and lead to either reduced availability of supply quotations or higher prices through increased risk premiums.

#### Intermittent communication

In the consultation it is explicitly stated that a loss of communication with a smart meter should not be considered reasonable grounds to avoid the back billing obligations. From our experience this is one of the reasons (albeit the numbers affected may be small) as to why a customer with a smart meter may still encounter a back billing situation in the future.

At the moment the resolution of the communication issue is within the remit of the Supplier responsible to resolve. We appoint our service providers and have control over the arrangements that are in place to resolve issues. Going forward once the DCC is implemented, we are no longer in such control and the services and standards for these are dictated to us via a monopoly service provider.

Although to be confirmed via the Smart Energy Code it is already clear from dialogue with the DCC that the service standards that will be available will mean it is not possible for Suppliers to rectify faults in time to comply with the proposed back billing obligations.

As the expected number of customers affected by this issue is likely to be small and Suppliers will not be able to affect the speed of resolution of these issues, it is appropriate to exclude these situations from the requirements for limiting back billing.



### Unintended consequences

We believe that there may be a number of unintended consequences from the proposed policy on back billing that were not considered in the consultation. These include the likelihood that Suppliers will look to mitigate the risks introduced by moving to more regular billing, the potential risk premium that Suppliers may build into all customer prices to reflect the costs that they believe they may incur and the likely switch to Pay as You Go products for micro business customers.

Allowing more time for smart meters to be deployed, across a greater number of Suppliers and via the DCC should allow more evidence to become available that would be able to inform the debate as to whether these new measures on back billing are appropriate.

It may also allow for a more in depth analysis of whether other options are preferable. The regulatory options being introduced in Ontario follows their experience with smart meters over a period of time and perhaps a similar approach might be more appropriate for the GB market.

### Costs

We disagree with the view stated in the consultation that the new proposals for back billing are simply an extension of the activity that we already undertake and therefore will not incur any significant implementation costs.

The proposals described in the consultation will require Suppliers to develop new business processes and systems to monitor and action different standards for back billing, depending upon what type of metering is installed at a customer's property.

These changes to our business processes and our IT systems will result in us incurring implementation costs and increased on-going administrative costs. These additional costs that we and all other Suppliers will incur have not been factored into either our own business case for smart meters or the overall DECC impact assessment.



## **Responses to consultation questions:**

### ***Question 1 - Do you agree with our assessment of the risk of estimates and back bills in the smart future?***

Yes, we agree with the assessment that the number of estimated bills issued by Suppliers in the future to customers with smart meters should be considerably smaller than those issued today for customers with traditional metering.

We recognise the issues described in the consultation as being likely scenarios that may prevent a Supplier from issuing an accurate bill to a customer even when a smart meter is available.

### ***Question 2 - Do you agree that a time limit on smart back bills is an appropriate response to this risk?***

No, we do not believe at this point in time that there is sufficient evidence to suggest that 6 months is an appropriate length of time after which Suppliers would be restricted from back billing a customer.

### ***Question 3- Do you agree with our proposal to implement such a limit via licence obligations?***

Yes, a licence obligation upon all Suppliers will ensure that all customers will be affected and not just those who are supplied by a company involved with one of the existing voluntary schemes.

We do however believe that there are some merits that come with the existing voluntary schemes that will need to transition should the back billing requirements be implemented via a licence obligation. Details of the impact to the current voluntary schemes and how the monitoring and enforcement of a new set of arrangements would function are missing from the consultation and should form part of the next phase of work in this area, should Ofgem decide to implement these new regulations.

### ***Question 4: Do you have any comments on our proposal for Suppliers to publish billing performance data for consumers with smart meters?***

If Suppliers are to be required to publish billing performance then it would be helpful to have a clear set of definitions and requirements from Ofgem. This will help Suppliers in providing the information and ensure that results are directly comparable.

### ***Question 5: Do you agree with our proposed treatment of microbusinesses?***

In principle there shouldn't be a reason to exclude micro business customers. However we suggest limiting the requirement to those customers whose smart meter is linked to the DCC communication network.

### ***Question 6: Do you agree with our proposal for the duration of a smart back bill limit?***

No, we believe that 6 months is too short a period of time and that initially 9 months would be a more appropriate length of time.

### ***Question 7: Do you agree with our proposed implementation timescales?***

No, we appreciate that it is understood that a period of time will be needed after Suppliers start to implement smart meters to ensure that they have business processes and systems in place. However all Suppliers will be introducing new systems and business processes to support the implementation of the DCC. It is therefore appropriate to link the implementation of any new obligations around back billing to the 'go live' date for DCC



services. This is a common approach taken by DECC with regards to new obligations upon Suppliers regarding smart meters.

As it is DECC's intention to implement a new obligation upon all Suppliers to be installing smart meters and using DCC services 12 months after DCC 'go-live' it would seem logical to introduce these requirements a further 12 months after this date. This should ensure that all Suppliers, even the slowest at implementing smart meters, have sufficient time to meet these new obligations.

Our proposal is that these obligations regarding back billing should be effective 24 months after DCC go-live.

***Question 8: Do you agree with our proposed scope of a smart back bill limit?***

No, we believe the scope should be extended to exclude all smart meters where there is no effective communication with the smart meter. Post the DCC services being implemented Suppliers are obligated to use the services that it provides and are no longer in direct control of the service providers involved in ensuring a successful communication link to a smart meter. It is therefore not appropriate for Suppliers to be penalised for timeliness of the resolution of communication problems.

***Question 9: If you are a Supplier, do you agree with our assessment of the implications of the proposed back bill limit for your business?***

We disagree with the view stated in the consultation that the new proposals for back billing are simply an extension of the activity that we already undertake and therefore will not incur any significant implementation costs.

The proposals described in the consultation will require Suppliers to develop new business processes and systems to monitor and action different standards for back billing depending upon what type of metering is installed at a customer's property.

These changes to our business processes and our IT systems will result in us incurring implementation costs and increased on-going administrative costs. These additional costs that we and all other Suppliers will incur have not been factored into either our own business case for smart meters or the overall DECC impact assessment.

***Question 10: Do you have any comments on our proposed approach to these objectives (on change of supplier, billing frequency and Direct Debits)?***

The approaches to the objectives around billing frequency and direct debits described in the consultation seem reasonable.

We are less convinced by the objectives around change of supplier. BSC P302 did not look to address any of the consumer issues with the Change of Supplier (CoS) process but instead focused upon implications for the settlement of electricity. Similarly the proposed changes in gas are focused on settlement implications and not the direct impact on customers.

In our view one of the key risks around the CoS process for smart meters is the number of registers on a smart meter and the way in which these record energy consumption. This situation is very different from existing domestic energy meters where the gas meter has only one register and the electricity meter may have several.



As smart meters are configurable by a Supplier and each Supplier may have a different type of tariff and use different registers on the smart meter to bill a customer, there is a risk that at a CoS event a customer will be confused by the information provided on their opening and closing bills.

There is a need to consider this issue in more detail and agree an outcome that will ensure that customers are not confused during the switching process. Reducing customers confidence in the supplier switching process risks undermining the competitive energy market. We encourage Ofgem to lead on a resolution to this issue as part of their smarter markets consumer empowerment and protection work.